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ASPECTS OF SOVIET PARTICIPATION IN A SHIFTING WORLD ECONOMY

by

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The concern of this paper, which is part of a more ambitious project of examining the "natural alliance" between the Soviet Union and the Third World, is to consider some of the practices of the USSR within the world economy. As the problematic of Soviet international trade and foreign aid are taken up in other parts of our work we will limit ourselves here to aspects of Soviet foreign investments and East-West-South industrial cooperation.

This field of study is still relatively young, not having fully caught the attention and imagination of social scientists. Our ambition with this paper is to throw light on some aspects in connection with the movement taking place within the international division of labor without, however, reaching global political conclusions. This doesn't of course mean that we consider these as being inconsequential. On the contrary, our contention would rather be that we are experiencing presently a drama where the different actors are vying with each other to get a larger share of the benefits of the international division of labor.

In recent years, Soviet relations to market economies have acquired a dimension which could - all other things being equal - affect the future of world economics and politics. (Cfr. Brun & Hersh, 1978) This is connected, of cource, to the strategic aim of the USSR behind this course. In a separate paper (1) we have described how participation in the international division of labor very early after the Soviet revolution became a subject of divergences within the ranks of the Bolshevik party. Intercourse with the capitalist world market was never entirely rejected during the Lenin period, nor during the years of "socialism in one country" under Stalin. As such, the eagerness of the CMEA +) countries, since the late 1950's and gaining impetus in the 1970's, to establish economic ties with the West does enjoy some early precedents. Nevertheless, both the scope and nature of economic relations to the world market as they have unfolded during the past decade suggest that a radical transformation in East-West

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+) CMEA = Council for Mutual Economic Assistance; or Comecon. Throughout this paper, we are only dealing with the European members of CMEA.

relations is in the process of being established. Moreover, the fact that this course has seldom been put into question, represents an important departure from earlier Soviet economic thinking which originally was characterized by disagreement and reservations.

In the 1920's, the specter of longterm dependency on capitalist nations and the perceived counter-revolutionary influence of such cooperation were two arguments used in the debate against such a line. Presently, however, the general suggestion is that the international evolution, characterized by the alleged imposition by the socialist camp of "peaceful coexistence" and "detente" on the West, have made economic linkage between countries of both blocs mutually advantageous and placed such a cooperation on an almost permanent basis. It ought to be recalled that in the days of Lenin, relations with the capitalist countries were viewed sceptically and considered as dictated by shortterm necessity. As a researcher at the Peace Institute of Oslo writing on this aspect put it: "In the 1920's, the temporary nature of the concessions was underlined by Soviet leaders several times, i.e. by Lenin. The expressions to this effect were stronger the further down to the factory floor the audience was. To the best of our knowledge, no authoritative statement in this direction has been made this time". (Lodgaard 1974, 338, n. 12)

Moreover in the 1920's the effort to establish commercial and economic links to the industrialized West occurred in the context of what was seen as a temporary retreat to state capitalism under the policy of NEP.(2) Even if the interpretation of that period by Charles Bettelheim were correct (3) the longterm goal of these links was, as foreseen by Lenin, to strengthen the economy and develop selfreliance vis-á-vis the world market. Later, during Stalin's policy of autarky, more extensive links were paradoxically developed. But this was done with the strategic aim of making the USSR more self-sufficient. The same emphasis on autarky was followed by Eastern Europe after 1945.

The situation today is different in important respects: Now relations with the capitalist world system are seen not as a temporary necessity, but as a positive step in itself. Since the late 1960's more and more authoritative voices have been raised expressing an explicit desire for the USSR to become integrated into the international division of labor. Originally, links to the capitalist world were mainly directed towards the industrialized centers. Relations to the then predominantly colonial world hardly existed. Under these circumstances whatever unequal exchange or unequal division of labor which may have occured, were at the expense of the USSR. What is presently envisaged is of an entirely different nature.

This doesn't mean, of course, that the USSR is about to lose control over its political and economic future. A case in point was the Soviet call for a return to a greater degree of autarky by CMEA-members at the first Comecon summit in thirteen years held in Moscow in June 1984. Observers saw this as an answer to the American offensive in the international arena as well as an attempt to protect the CMEA from the effects of the economic difficulties in the capitalist world. (Le Monde 12.6.84) Events in Poland following that country's opening to the capitalist world have certainly exerted an influence in Soviet decision-making.

Irrespective of this countervailing trend, it is our contention that the USSR and its European allies are already participants in the international division of labor and that the option of reverting to a course of limiting intercourse with the West is not in the cards. Under these circumstances the question that presently arises is whether East-West cooperation is not following its own internal logic (4) and as such transforming the relative autonomy of the Eastern European countries (including the Soviet Union) vis-á-vis the world economy. The Soviet vision of establishing, in conjunction with the other CMEA countries, an alternative international division of labor with the Third World seems, in practice, to have been subordinated to the simultaneous aim of obtaining a greater degree of interdependence within the capitalist world economy. (5)

Soviet Foreign Investments.

A case in point is the scope of Soviet and other Eastern European countries' level of activities in capitalist core nations. The decision-making which has directed Soviet foreign economic practice in the past decades has probably not been unaffected by the example of the success of Western multinationals. These have shown the feasibility of acquiring advantages from the international division of labor without having to gain direct political control over the countries where they are exerting their activities. This recognition contributed to the course of favoring an extension of Soviet business interests abroad in various forms. As an expert of Soviet foreign economic policy put it:

> "Anxious to expand and improve Soviet participation in the international economy, foreign trade planners and officials in the USSR have contemplated a world where firms have increasingly exploited commercial and technical advantages in foreign markets directly, through subsidiaries established within these markets areas. It is scarcely surprising that they should have decided that their own international success depended upon the pursuit of a similar investment strategy." (McMillan, 1979, 627-28)

The practice of establishing financial and trading enterprises in capitalist countries, however, is not an entirely new phenomenon in the economic history of the Soviet Union. The Moscow Narodnyi Bank of London was set up in 1919, the Russo-Iran Bank in Teheran in 1923, and the Eurobank in Paris in 1925. The oldest example of a Soviet trading company in the West is the Russian Wood Agency, Ltd. likewise established in London in 1923 with the purpose of promoting exports of raw materials from the USSR. Since then several decades passed without further similar ventures. But in the past fifteen years or so, after a sprout of Soviet financial establishments abroad, the number of Soviet trading companies has greatly increased. In addition, many of these have switched from handling primary goods to promoting trade in Soviet manufactured products. The foreign investment policy of the 1970's bears witness to the new economic thinking of the USSR with regard to the outside world.

In contrast to other CMEA countries, the Soviet Union has shown a greater propensity to invest directly in Western core nations rather than in the Southern periphery. The explanation for this apparent dissimilarity may be related to the difference in needs for access to sources of raw materials. In this respect, Soviet concern is less pronounced than that of the economies of the Eastern European countries. Another element could be the fear of nationalizations similar to the one which has motivated Western investors to move out of the extractive sector. Soviet practice in the Third World shows a preference for extending credits as a means of exporting Soviet capital goods and technology while taking repayments as a share of the output. Only nine Soviet companies are known to be directly involved in the exploitation of Third World natural resources. These are the joint ventures established by Sovrybflot, which is a subsidiary of the Ministry of Fisheries. As McMillan writes, these enterprises, which have a 50-50 equity ownership with the foreign partners, were largely set up as a method of circumventing the limits imposed on its fishing industry by the establishment of 200-mile coastal economic zones by Third World countries. (Ibid. p. 636) Apart from these examples, the Soviets seem to have given preference to the development of their own raw material production. In this field, assistance has been requested of other CMEA members, as well as from West European sources. (6)

When investment takes place in the West, it is mostly in the form of commercial firms specializing in export-import. Nearly half of the Soviet companies in foreign countries deal in trading and marketing. Their primary function appears to be the marketing of machinery and industrial equipment of Soviet origin such as machine tools, agricultural machinery and transport vehicles. Some deal with intermediate industrial products in the form of chemicals, or primary and semiprocessed goods such as petroleum and lumber.

Fewer handle the export of Soviet foodstuffs and various consumer goods.

The larger share of Soviet investments in the Western industrialized world seems to be connected to export-promotion of special industrial products. In the Third World, a greater proportion of Soviet investment goes to manufacturing activities (32 per cent of investments against 9 per cent in the industrialized West). But also here the immediate purpose seems related to the promotion of Soviet exports. (McMillan 1979, 632)

Statistics concerning Soviet equity investment abroad are not easy to come by. Neither the USSR nor Western host countries publish comprehensive lists of firms with Soviet participation. Carl H. McMillan of the Institute of Soviet and East European Studies at Carleton University (Ottawa) has identified, as of March 1979, the existence of 177 companies abroad with Soviet ownership participation. Of these, 92 were located in 17 Western capitalist countries, while 25 were found in 19 countries of the periphery:

—NUMBER AND DISTRIBUTION BY PRINCIPAL ACTIVITY OF SOVIET COMPANIES (WHOLLY OR JOINTLY OWNED) LOCATED IN OECD COUNTRIES, AS OF MARCH 1979

Table 1.

OECD region and country	Activity: Trading	Activity: Trading and marketing [1]	Activity: Marketing and manufacturing [2]	Activity: Natural resource exploitation [3]	Other services: Fin [4]	Other services: Tpt [5]	Other services: Other [6]	Total
Europe:								
Austria	1	0	0	0	2	1	0	4
Belgium-Luxembourg	1	5	1	0	1	2	1	11
Denmark	0	1	0	0	0	0	0	1
Finland	0	4	1	0	0	1	1	7
France	2	1	3	1	2	2	1	12
Federal Republic of Germany	5	0	1	0	2	3	0	11
Italy	3	2	0	0	0	2	1	8
Netherlands	1	1	0	0	0	0	1	3
Norway	0	3	0	0	0	0	0	3
Spain	0	0	0	1	0	0	2	3
Sweden	1	1	0	0	0	1	0	3
Switzerland	0	0	0	0	1	0	0	1
United Kingdom	2	3	0	0	3	2	0	10
North America:								
Canada	0	4	0	0	0	1	0	5
United States	0	1	0	1	0	2	1	[7] 5
Pacific region:								
Australia	0	2	0	0	0	2	0	4
Japan	0	0	0	0	0	1	0	1
Total	16	28	6	3	11	20	8	92
Percent	17	30	6.5	3.2	12	22	8.7	100

[1] Includes such related functions as product modification, distribution, and servicing.
[2] Includes assembly operations and materials processing.
[3] Activities related to the extraction and processing of foreign raw materials, including fish.
[4] Financial services, such as banking, insurance, and equipment leasing.
[5] Transportation services.
[6] Other services, including technical and commercial consulting, and engineering services.
[7] The 5 companies in the United States are Amtorg Trading Corp. (general agent for United States–U.S.S.R. trade), Belarus Machinery Ltd. (tractor sales and service), Morflot America Shipping, Inc. (shipping agency), Sovfracht, Ltd. (chartering agency) and United States–U.S.S.R. Marine Resources, Inc. (fishing venture). Amtorg is classified under "other services", because in addition to its intermediary, trading functions, it provides a range of commercial consulting and promotional services.

Sources: East-West Project, Carleton University. (in McMillan, 1979, 629)

Table 2. NUMBER AND DISTRIBUTION BY PRINCIPAL ACTIVITY OF SOVIET COMPANIES (WHOLLY OR JOINTLY OWNED) LOCATED IN DEVELOPING COUNTRIES, AS OF MARCH 1979

	Activity								
					Other services				
Developing region and country	Trading	Trading and marketing[1]	Marketing and manufacturing[2]	Natural resource exploitation[3]	Fin[4]	Tpt[5]	Other[6]	Unknown[7]	Total
Africa:									
Angola	0	0	0	1	0	0	0	0	1
Cameroon	0	1	0	0	0	0	0	0	1
Ethopia	0	1	0	0	0	0	0	0	1
Morocco	0	1	0	0	0	0	0	0	1
Mozambique	0	0	0	1	0	0	0	0	1
Nigeria	0	0	1	0	0	0	0	0	1
Sierra Leone	0	0	0	1	0	0	0	0	1
Somalia	0	0	0	1	0	0	0	0	1
Asia:									
Afghanistan	0	0	0	0	0	1	0	0	1
India	0	0	0	0	0	0	0	[8] 1	1
Philippines	0	0	0	0	0	1	0	0	1
Singapore	0	0	0	1	2	1	0	0	4
Latin America:									
Argentina	0	1	0	0	0	0	0	0	1
Mexico	0	[9] 1	[9] 1	0	0	0	0	0	2
Venezuela	0	[9] 1	0	0	0	0	0	0	1
Middle East:									
Egypt	0	0	0	0	0	0	0	[8] 1	1
Iran	0	0	0	0	1	1	0	[8] 1	3
Iraq	0	0	0	1	0	0	0	0	1
Lebanon	0	0	0	0	1	0	0		1
Total	0	6	2	6	4	4	0	3	25
Percent	0	24	8	24	16	16	0	12	100

[1] Includes such related functions as product modification, distribution, and servicing.
[2] Includes assembly operations and materials processing.
[3] Activities related to the extraction and processing of foreign raw materials, including fish.
[4] Financial services, such as banking, insurance, and equipment leasing. 3 of the 4 Soviet banks and financial companies in the developing countries are branches of affiliates of Moscow Narodny Bank Ltd. of London.
[5] Transportation services.
[6] Other services, including technical and commercial consulting, and engineering services.
[7] Instances where principal activity could not be determined on the basis of available information.
[8] Identification tentative; Soviet equity unconfirmed.
[9] A joint Mexican-Venezuelan-Cuban-Soviet oil company is located in both Mexico and Venezuela.

Source: East-West Project, Carleton University. (in McMillan, 1979, 630)

Western Europe accounts for the bulk of Soviet companies abroad. Since these have a trade-promoting function, it is not surprising to find them located in those countries with the most extensive economic relations to the USSR. While there is a certain concentration of Soviet companies in the West (France, Germany, Belgium-Luxembourg, the United Kingdom, Italy, and Finland), there is a greater spread in the South. Only Singapore, Iran and Mexico host two or more Soviet-owned companies.

The motivation for Soviet foreign investments is revealed by tables I and II above. Of the 114 companies whose principal activity could be established, 50 (44%) were engaged principipally in trading and marketing. Another 47 (41%) dealt with other service industries, with transport accounting for more than half and financial services for 15. Only 17 of the 114 companies (15%) were active in some kind of production.

The predominant ownership form of these equity investments in both the West and South is the joint stock company. McMillan informs us that of the 90 companies abroad, for which the ownership pattern could be determined, 30 per cent were entirely Soviet-owned, while for another 51 per cent, Soviet equity represented the majority holding. In only 10 per cent of the cases was the Soviet company a junior partner with a minority of shares. In their investment policy in especially Western countries, Soviet planners show a marked preference for majority ownership. While Soviet equity, equal to that of the local partner, can be found in 57 per cent of identifiable cases, in the Third World, equal or minority equity represents only 12 per cent of the identifiable ownership pattern in the West.

In the latter case, majority ownership may be the only way to ensure operational control, while in the Third World controlling knowhow and the other essential inputs may provide the desired influence. (7) Another reason for discrepancy between practices in the core and periphery may be concerns about political stability, nationalisations or gains of foreign currency. While Soviet companies in the West can be considered as subsidiaries, the appropriate term to designate the Soviet investment activities in the Third World could in many cases be the "joint equity venture" formula.

The modality of Soviet foreign economic expansion abroad has shown a trend towards limited capital export accompanied by the mobilization of local funds in partnership. The 92 Soviet companies established in the West have been evaluated to be worth about 290 million dollars. Nearly 100% of this capital is under Soviet ownership. This covers more than 240 million dollars invested in nine Soviet-owned banks and insurance companies. Soviet sources have contributed to about 80% of the 50 million dollars of equity invested in companies in other sectors, with the balance provided by Western investors. With regard to the 25 Soviet companies in the South information is more wanting. According to McMillan, a realistic estimate places total capital in these companies at 30 to 35 million dollars. The Soviet share being lower in the companies established in the South than for those in the West, it is estimated to be approximately 18 million dollars. (McMillan ibid, p. 631)

More significant, though, has been the dynamism behind the establishment of new and the expansion of existing companies. Of the forementioned 117 Soviet companies in the West and South, two-thirds have been set up since 1970. Besides this noticeable increase, Soviet foreign investments have shown a tendency towards a greater degree of diversification. The establishment of Soviet banks in Western Europe, which represented a rather important thrust in the beginning of the 1970's, has been replaced by greater attention to investments in other service activities. In the early 1970's the Moscow Narodnyi Bank of London saw the emergence of sister establishments in most financial centers of Western Europe as well as in Beirut and Singapore. Paradoxically, the foreign investment pattern of the USSR is far from original. On the contrary it tends to resemble the methods of capitalist business enterprises. This similarity has become gradually more pronounced. In the words of McMillan: "Following general Western practice, expansion and diversification are financed, wherever possible, through reinvested profits and local borrowings rather than through the export of capital from the home country." (ibid. 631-32)

The lessons from American corporations, like General Motors, who, after the Second World War, built networks of enterprises in Western Europe by raising local capital with little export of funds from the parent firms, has not been lost on Soviet specialists of international economics. As a consequence the scope of Soviet business expansion has begun to attract the attention of Western analysts. In an article in the American business magazine Fortune, Herbert E. Meyer described the evolution of Soviet economic penetration in the capitalist world in the following way:

> "Much like a Western corporation that gets so big it looks abroad to further its commercial interest, the Soviet Union has gone multinational. It operates a network of banks in Western Europe, the Mideast, and Asia. It runs insurance companies and equipment-leasing firms in several Common Market countries. It has formed a dozen maritime agencies around the world, including two in the US, to hunt customers for globe-circling Soviet-owned shipping lines. It owns and manages more than a score of companies in the capitalist world

to peddle raw materials, such as oil and lumber, or to sell and service its manufactured products, such as tractors and automobiles." (1977,134)

The USSR of course is not the only command economy engaging in this type of economic activity in the capitalist world. In a study on Comecon foreign investment it was revealed that 300 companies under state enterprises of the East European countries had activities in the West, and that 185 were active in the Third World. Their total capital value was estimated to be approximately 450 million dollars but with a substantially superior potential business turnover and level of activities. (Cfr. Grappin, 1981) In a monograph on multinationals in East-West relations published in 1976, J. Wilczynski could inform us that "The total sub-affiliates and agencies established outside the Socialist bloc is estimated to be 10,000, the USSR being the most active country in this new-style of empire-building." (1976, 153)

The need to gain access to foreign currency earning, to alleviate chronic hard currency deficits, has played a major role in creating Soviet interest for establishing trading and marketing firms in the capitalist world. As implied above, their major function is to further the export of industrial goods reflecting the USSR's level of industrialisation rather than of traditional primary products. Comparatively speaking, the average value of capital invested in Soviet trading and marketing companies abroad is still relatively negligible. The volume of activities is a better indicator of their significance: In 1977, Soviet exports arranged through these firms were estimated to be in the order of 2,3 billion dollars. In the 17 OECD countries, where they are located, Soviet subsidiaries arranged the export of Soviet goods to the amount of 2,1 billion dollars, or 18,5% of total export to these countries. (McMillan 1979, 634) Whereas other CMEA countries' trading and marketing companies in the West tend to concentrate in the export of consumer goods, their Soviet counterparts specialize in a narrower range of industrial goods.

As far as manufacturing is concerned, Soviet investments in foreign production facilities are still limited. Most of these tend to have their activities in the processing and assembly of Soviet products in order to serve local markets more effectively. This is also done in order to circumvent protectionist measures and reduce transport expenses. This type of firms have been common in the field of transportation equipment and agricultural machinery. With regard to the activities of Soviet banks their presence in the capitalist world gives the USSR access to national and international money markets for the financing of imports of Western plants and technology. Besides they play a role in facilitating investments by CMEA countries in hard currency areas. Furthermore, these financial institutions bestow a degree of secrecy to transactions on the world market, for example with regard to Soviet gold sales. Contact to Western banking also provides financial data and access to monetary developments in the capitalist world. Needless to say that this type of information can have a useful political function too.

In recent years, the two principal Soviet banks in Western Europe, the Moscow Narodnyi of London and the Eurobank of Paris, have extended their business operations. In 1973 they established joint ventures with Western firms for leasing purposes: The East- West Leasing Company comprising the Moscow Narodnyi and Morgan Grenfell in London and the Promolease established by Eurobank and the French financial concern Crédit Lyonnais are active in both promoting the leasing of Western capital equipment to enterprises of the CMEA countries as well as the reverse, that is, renting purchased Eastern European equipment to Western customers.

In the insurance field as well, the Soviet Union is no newcomer. Their companies in the capitalist world are entirely owned by the USSR and are directly under the jurisdiction of the Soviet state insurance corporation, Ingosstrakh. Two of the foreign subsidiaries, The Black Sea and Baltic General Insurance Co. Ltd. of London and the German counterpart, Schwartzmeer and Ostsee Transportversicherungs AG of Hamburg were founded before the Second World War. The third, Garant Versicherungs AG was established in Vienna in 1958. Their main activity is to underwrite export-import transactions between the Western and CMEA countries, and thus promote East-West trade. Since the 1970's they have extended their operations to all kinds of insurance-related services. The Black Sea and Baltic is even said to have underwritten US direct investment in developing countries under the expropriation insurance program of the US Overseas Private Investment Cooperation (OPIC). (The Times, April 24, 1972)

In the sphere of transport services, the USSR has established a network of companies in the main maritime centers of the world reflecting increased interest in having the large Soviet merchant fleet become a hardcurrency earner. The strategy followed is again similar to that of other big maritime powers. As McMillan puts it: "By establishing its own agencies and facilities in key locations abroad. Sovinflot (the general agent of Soviet shipping lines) is following an institutional path well broken by its major competitors." (McMillan 1979, 641)

Needless to point out that in comparison to the activities of Western business concerns in the world economy, Soviet foreign investments and enterprises abroad are still of limited importance. Nevertheless, the question of whether we are not witnessing the multinationalization of Soviet enterprises is becoming legitimate. At present about 22 Soviet companies fit the United Nations' definition of multinationals as applying to "all enterprises which control assets - factories, mines, sales offices, and the like - in two or more countries." (8)

Compared to their Western counterparts, Soviet "multinationals" account for a rather marginal share of capital flow on a world scale. Nevertheless, their significance emerges in the projection of the Soviet Union as a superpower, while keeping in mind the internal political structure of the USSR. The fact that the activities of Soviet foreign enterprises are a function of a highly centralized political entity gives their "multinationalization" a special dimension. (9)

As Carl H. McMillan points out we are dealing here with a significantly new phenomenon in world affairs:

> " In its totality, Soviet foreign investment has created a geographically extended, multinational network of companies with complex corporate interrelationships. If Soviet foreign trade enterprises and other economic organizations are regarded as elements of a monolithic whole (the whole "command" economy) and their subsidiaries abroad are viewed as parts of a centralized, multinational system forming the foreign corporate "empire" of a "U.S.R.R. Inc.", then the economic power which foreign investments represent grows in significance. While in terms of the number of companies established and the values of direct investment they represent, the entire Soviet network is not exceptional by the standards of the larger Western multinationals, it is significant in terms of its rapid growth, geographical and functional diversity, and of course, the economic and political power which stands behind it." (ibid. 643-644)

When analyzing the role of the USSR in world affairs, the emphasis is often put on the political and military aspects of the question. But the evidence at hand seems to indicate a desire on the part of the Soviet establishment to reach superpower status in the sphere of economics as well by linking up to the world capitalist system. In this respect it will not be uninteresting to follow the evolution of Soviet foreign investments when the hard currency earnings of the gas pipeline to Western Europe start flowing to the USSR. (Cfr. Grappin, 1981)

<u>Western Penetration in CMEA Countries</u>.

But penetration also takes place in the opposite direction. Even if the practices of the two parties in East-West economic cooperation resemble each other, it does not make their respective motivations more compatible. Sleeping in the same bed, their dreams are quite different, as Chou Enlai, referring to an old Chinese proverb described US-Soviet relations. (Fontaine, 1981, XII) From its inception, the USSR thought that economic intercourse with the capitalist world could help strengthen its regime. Lenin himself insisted that capitalists, in order to make a profit, would be willing to sell the Bolsheviks even the rope with which they would be hanged!

The West, of course, has always had different motives for "helping" Eastern European countries. Namely to resolve its own economic difficulties, as well as to modify the Eastern bloc in a capitalist direction. (10) Thus, it goes without saying that the interest of highly developed capitalist enterprises is not philanthropical, but connected to its fascination with the expanding market of about 400 million people stretching from Berlin to Vladivostok, combined with a political stability which can guarantee investment. In return for technological know-how- and capital, these countries are thought to be able to offer a well-disciplined, qualified and relatively cheaper labor force. Furthermore, the need for diversified and increased supplies of raw materials has made the Soviet Union an attractive economic partner. The interest of Western firms was further enhanced by the economic reform movement in Eastern Europe. As Charles Levinson, an expert on multinationals, saw it:

> "... there is mounting optimism among businessmen that the Lieberman system's rehabilitation of the profit motive (even though still socialist in context) and the greater authority being delegated to local management to decide on production, sales and the distribution of income according to market place or supply and demand is the opening wedge of the vast process of liberalization ... Co-production is the first synthesis of a new hybrid form, part collectivist, part capitalist, and the Western capitalist is betting that if any swallowing is to occur, he is in the best position at the table, with the biggest appetite and digestive tract". (Levinson 1972, 189)

This was the background for what Central European economists call "industrial cooperation". In addition to traditional acquisitions of entire factories and licence-purchasing - which may not necessarily affect the mode of production - this collaboration takes the form of enterprices producing single components as part of Western production processes, with the finished goods manufactured and sold in the West. As early as 1973, a United Nations commission estimated the number of East-West cooperation agreements to be around 600. In the course of a few years industrial collaboration contracts between East and West (including Yugoslavia) had increased to 2,302 according to another study on the subject by McMillan. (1977, 1175-1224) It is noteworthy that these agreements involved Western multinational corporations and East European state enterprises, the former being the only firms big enough to undertake the type of cooperation envisaged. In the early seventies two students of this question found that coproduction based on specialization was the most widely used type of agreement. Licensing with full or partial payment in the resulting production (socalled compensation agreements) was the second most utilized modality. Contractual joint ventures in the West came next, followed by the supplying of complete plants or production lines. Subcontracting agreements came in fifth place, while contractual joint ventures in third countries came last. (Cfr. Lauter & Dickie, 1975, 56-57)

The creation of mixed enterprises has led to the acceptance of up to 49 per cent foreign capital in Eastern European national undertakings. Nevertheless, sofar fewer than a dozen companies with Western equity have been established in the CMEA area (McMillan, 1979, 363). The Soviet Union has been particulary hesitant and so far has not permitted foreign joint equity ventures and property rights on its territory. But the results of its policies have not been very different. These have been governed by the conception that Western business is more interested in guaranteed profits, which can be reinvested or transferred,than in direct ownership. As Marshall D. Schulman observes:

> "In an effort to make transfers of advanced technology more attractive to Western firms, the Soviet Union has been moving warily and with evident reluctance toward forms of joint ventures. While the Soviets do not permit foreign equity holdings, they do accept Western participation in management functions affecting quality control, though not in personnel matters." (1977, 308)

That doesn't mean of course that Western penetration in the CMEA bloc has been negligeable. J. Wilczynski informs us that of the approximate total number of 3.000 Western-based multinational corporations of any importance, about one-third have had dealings with these countries since the 1960's. (Cfr. Wilczynski, 1976, 35-40)

East-West Industrial Cooperation fulfills essentially two purposes as far as the countries of the CMEA are concerned: On the one hand such arrangements represent an attempt to alleviate internal growth problems through the acquisition and rapid establishment of industrial projects with the accompanying technology and know-how. On the other hand Industrial Cooperation (IC) is viewed as a means to ameliorate the competitiveness of the planned economies in the world market by adapting their means of production to international norms and by using the Western multinationals as marketing agents for their exports. East-West IC furthermore contributes to a certain specialization within the bloc..

From the point of view of the Western multinationals, this cooperation became a technique to circumvent the protectionist apparatus of the planned economies. Moreover, with compensation whereby part of the final production is reexported to the West, cooperation arrangements become a method of integrating the East European countries in the economic strategy of the multinationals, as well as in the international division of labor. (Cfr. Rosenthal, 1980, 176-77)

East-West-South Industrial Cooperation.

This imbrication of East-West economies, taking place during the period of "detente" between the two blocs, contributed to transfrom the position of the South from a bone of rivalry to an area of collaboration. One result was a decreasing interest for the extension of assistance to the periphery on the part of both the West and the East. As the Indian social scientist, Padmai Desai, candidly noted: "The decline of the Cold War and its replacement with détente until the inauguration of the Reagan Administration has implied the elimination of the strongest motive for aid to the developing countries. The Soviet Union, no less than the West, is unwilling to pour increasing amounts of aid into the Third World in order to compete for influence." (11) (Desai, 1983, 519)

This however ought not to lead to the conclusion that the South had lost its attraction. The logic which had pushed toward East-West economic cooperation between firms or productive enterprises was based on the attempt to surmount the problems created by international competition: On the one side the rising costs of research and development, labor, raw materials, energy and conservation, and on the other, by the need for markets as a result of the growing scale of production.

Under conditions of cooperation between enterprises of the different type economies in the North (East-West), extension of this collaboration to the South was a "natural development". In a certain sense both East and West had an objective interest in incorporating the Third World in what has been called Tripartite Industrial Cooperation (TIC). It is common knowledge that the West and Eastern Europe have an inherent need for regular supplies of raw materials. The same is becoming increasingly true for the USSR. (12) East-West cooperation in the Third World provides the Eastern firms with the additional advantage of obtaining markets for products for which it would otherwise be difficult to find outlets. Competition for markets is also a problem in the highly competitive West. The fact that the Eastern partner is often willing to receive repayment in kind, would tend to make the financing problem of TIC arrangements easier.

Tripartite industrial cooperation is in reality the only pattern of triangular cooperation involving the three main geopolitical areas participating in the world economy. (13) In its most common frame of operations, capitalist Western firms together with state enterprises of Eastern Europe establish industrial units in Third World countries with participation by local enterprises. Within the scope of TIC there has also been a limited number of cases of West-"rich" South-East cooperation, whereby Western firms deliver technology and equipment as well as some capital, while the "rich" Southern partner put up substantial (but minority) capital for the realization of industrial projects in the East. Principally based on bilateralism between Third World oil producers (OPEC) and members of the CMEA this form developed on the heels of the oil-price increase in 1973. This bilateral cooperation became triangular with the involvement of Western enterprises.

Before the emergence of the concept of Tripartite Industrial Cooperation industrial collaboration in the Third World had been due to the initiative of enterprises of both types of economies on an ad hoc basis. Two French students of East-West industrial relations point out in their study of the phenomenon that neither Western firms nor Eastern enterprises, practicing this type of collaboration in a Third World country, had felt the need for any specific publicity. (Cfr. Gutman & Romer, 1978, 598) Prior to 1972, TIC contracts were signed whereby Western engineering firms and Eastern European Foreign Trade Organizations collaborated on projects in response to tenders emanating from third countries. At the time this type of arrangements did not have aspects other than enterprises of both economies doing business together in a third market. It is only with the increase of this practice, since 1973-74, that a start was made to institutionalize this modality of cooperation through the signature of "General Agreements". (ibid. 612)

While the Third World country previously sollicited the assistance from enterprises of both East and West inciting them to cooperation, this is becoming less and less necessary as firms of both type economies work out arrangements in common bids to respond to tenders of third countries. Thus the Western partner finds itself an Eastern enterprise or vice vērsa in order to go into a project, often in competition with other similar combinations of enterprises from both East and West. While rivalry between Western corporations is a known phenomenon, this type of arrangement also leads to a decrease in socalled "socialist solidarity". As Patrick Gutman and Jean Christophe Romer have noted: "It is after all significant to note that two socialist enterprises, each associated to Western partners within the framework of TIC, enter into competition with each other. This is a perfect measure as to the point to which TIC becomes a competitive practice". (ibid. 613) Thus while at the micro level combinations of East-West enterprises compete against each other in order to win a contract from a Third

World country, the practice of TIC on the macro-plan has the effect of surmounting the difficulties connected to East-West economic intercourse caused by the shortage of convertible currencies in Comecon countries and the limited market for Eastern European products in the West. Seen from this angle the interests of the Southern partner would appear to be a secondary consideration.

In addition to joint bidding, facilitated by protocol agreements, joint East-West companies have been formed with a specific purpose of industrial construction in the Third World. (14)

Unfortunately the lack of official, national statistics to draw upon makes the empirical work, necessary to assess the importance of the phenomenon, difficult. Carl H. McMillan holds that compared to East-West and East-South relations, the TIC is still a "marginal phenomenon". (in Saunders, 1983, 365) However, regardless of their relative quantitative importance, the growth of operations within the framework of TIC is giving this type of cooperation a dimension which has implications for the problematic of the international division of labor. Its rate of implementation has also been noticeable. Thus while 138 projects had been registered in the 1965-1975 period, 88 were in progress or completed in the course of three years between 1976-1979. The number of protocol agreements (15) between especially Western European engineering firms and Eastern Foreign Trade Organizations likewise showed a marked increase from 38 in 1965-1975 to 82 in 1976-1979. (Cfr. Gutman in Saunders, 1983, 336) As far as their influence on peripheral countries is concerned, it has been estimated that approximately 8-10 per cent of imports by the South in the 1970's have resulted from TIC agreements. Up to 1975 the projects realised under such agreements were evaluated to be worth at least 35 billion dollars. (Sideri, 1982, 262)

With regard to the distribution of tasks, TIC arrangements introduce a division of labor among the partners: engineering and technical know-how usually goes to Western firms, while subcontracting and assembly work are the speciality of Eastern enterprises, assembly and/or part of the civil engineering is left for the third country when able to outcompete the other partners. Cases of dumping by Foreign Trade Organizations of Eastern countries whereby the contribution of the third country is further reduced, have been observed. Having specialized in assembly work, they offer, at times, such favorable commercial and financial terms as to make the third country relinquish the use of local enterprises even when qualified for the job. All in all, practice has shown that the Third World countries involved in TIC are the least active partners in building industrial complexes in their own economies. (Cfr. Gutman, in Saunders, 1983, 342)

Table 3. **TIC 'France-East-South' (1965 – 1975), partners' contributions by type of work (a)**

French firms	Socialist FTOs	Third country firms
Planning and constructional engineering 82.5 %	Assembly, civil engineering 30 %	No work 65 %
Sub-contracting 17.5 %	Sub-contracting assembly & civil engineering 35 %	Sub-contracting & assembly 5 %
	Industrial engineering & sub-contracting 17.5 %	Assembly & civil engineering 30 %
	Planning and constructional engineering 17.5 %	

(a) The percentages are arrived at by taking the average of partners' contributions to 40 projects.
(from Gutman, Saunders, 1981, 343)

Table 4. **TIC 'France-East-South' (1965 – 1975) relative share in monetary value of each partner's contribution (in millions of Francs)**

Percentage of cost of each project	France's share				Eastern countries' share				Third countries' share			
	Number of projects	%	Value mn. Francs	%	Number of projects	%	Value mn. Francs	%	Number of projects	%	Value mn. Francs	%
0 – 1	–	–	–	–	–	–	–	–	21	61.8	–	–
1 – 20	10	29.4	438	15.9	22	64.7	491	8.7	8	23.5	90.3	8.8
21 – 50	6	17.6	257	9.4	6	17.6	270	4.8	4	11.8	234.7	22.9
51 – 75	7	20.6	616	22.5	2	5.9	254	4.5	1	2.9	700	68.3
76 – 100	11	32.3	1431	52.2	4	11.8	4605	81.9	–	–	–	–
Total	34	100	2742	100	34	100	5620	100	34	100	1025	100
Percentage of total cost of the 34 TIC projects (a)	25.7 %				52.7 % (b)				9.6 %			

(a) The total amount does not come to 100 % because a few Western non-French sub-contractors have not been included in the table; the 12 % roughly corresponds to the purchase of foreign technological processes by French main contractors. – (b) The high figures are explained by the fact that the USSR obtained three exceptionally big contracts; consequently there is a considerable discrepancy between the relative share of certain socialist countries in terms of number of projects and in terms of the value of these same projects. The USSR itself, which represents only 18 % of the total Eastern commitments, however accounts for 85 % of the total value obtained by all Eastern countries in the TIC exercise (cf. P. Gutman and F. Arkwright (1976), in Select Bibliography). (from Gutman, Saunders, 1981, 344)

It appears from the above data on East-South-French cooperation that in 65 per cent of cases there was a total absence of any contribution from the Third World, whereas the latter's share in the value of contributions amounted to less than 10 per cent.

The original motivation of the three "partners" for tripartite industrial cooperation is not difficult to establish, as it is self-evident. The Western firm is able to increase exports by taking advantage of decreasing costs due to the competitive terms of the Eastern partner. Furthermore, such arrangements enable these firms to enter new markets with the support of CMEA enterprises. (16) The CMEA participant, as already mentioned, gains an increased ability to sell material and services in order to obtain foreign currencies or get access to raw materials (through compensation agreements) which is an indirect way of saving currency. With the capitalist partner the Eastern enterprise is able to enter and keep markets. On the technological front it comes into contact with more advanced Western technology and know-how. As a matter of fact, initiatives for TIC have primarily come from Eastern foreign trade organizations who have shown the greatest enthusiasm. (17) For the Southern partner the motivations have been connected to 1) reduction of the cost of projects by having the associations of enterprises from both market and command economies; 2) improving the possibilities of financing the project and of utilization of compensation agreements in order to save foreign currency in repayment; 3) offering what is perceived as an alternative to the exclusive control by Western multinationals while showing a certain neutrality between East and West. (Cfr. Gutman & Awkwright, 1975, 643) At a time when capitalist multinationals were increasingly coming under criticism, enterprises based on East-West cooperation had a more acceptable and "neutral" image. (18) An indirect advantage which was probably not lost in Western decision-makers.

For stronger economies such as those of the West and the East, it is obvious that their interest would disappear if there were no advantages to be gained from TIC. The impact of this cooperation on Third World countries is more difficult to establish. From the point of view of distribution of gains it is doubtful that the expectations of the three partners are equally fulfilled. And if someone has to be less rewarded, the probability is that it will be the weaker partner. As Patrick Gutman writes on this point:

> "Although the declared aim of the Western and Eastern partners is to give the South the benefit of the dynamics of East-West relations, TIC in practice may not entirely fulfil the hopes placed on it. In other words, in view of the experience of TIC over the past fifteen years, can the practice really be qualified as 'tripartite", or it is not merely straight East-West cooperation in third countries?" (in Saunders, 1983, 338)

The true assessment of the workings of TIC in Third World countries would require extensive case studies: To determine the benefit or disadvantage of inserting industrial complexes in the national economy of a particular country of the periphery. To find out to what degree they organically fit in with the previously existing industrial structure. Evaluation of the kind of technology transfer effectuated and its suitability to the local economy with respect to employment, income redistribution, etc. Last but not least of course an appraisal of how these complexes link or delink with the demands of the world economy and the consequences for third countries' place in the international division of labor (i.e. in the process of global value transfers). Unfortunately such investigations are beyond the scope of this paper. But for our purpose here, a sectoral breakdown of TIC projects may contribute to get an idea of the type of enterprises which are being developed through East-West-South cooperation.

Sectoral Distribution of TIC.

The following breakdown is based on 226 TIC operations completed or in progress in the years 1976-1979 and a further 199 protocol agreements. Basing ourselves on the work of Patrick Gutman, an assessment can be made as to the sectoral type of development, which TIC has encouraged, as shown by experience from 1965-1979, with a break at 1975 to illustrate changes during the latter period.

Table 5.

Sectoral analysis of tripartite industrial cooperation, 1965 – 1975 and 1976 – 1979

	TIC concrete cases						Protocol agreements					
	1965 – 75		1976 – 79		1965 – 79		1965 – 75		1976 – 79		1965 – 79	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1 Agriculture	1	0.7	1	1.1	2	0.9	0	–	0	–	0	–
2 Energy – Production – Distribution	55	39.9	36	40.9	91	40.3	2	5.4	10	12.2	12	10.1
3 Mining	6	4.3	2	2.3	8	3.5	1	2.7	3	3.7	4	3.4
4 Intermediate goods industries	41	29.7	26	29.5	67	29.6	7	18.9	17	20.7	24	20.2
5 Equipment goods industries	8	5.8	4	4.5	12	5.3	5	13.5	10	12.2	15	12.6
6 Consumer goods industries	23	16.7	10	11.4	33	14.6	8	21.6	8	9.8	16	13.4
7 Building & public works	0	–	4	4.5	4	1.8	0	–	2	2.4	2	1.7
8 Commerce, services	2	1.4	0	–	2	0.9	1	2.7	2	2.4	3	2.5
9 Transport	2	1.4	2	2.3	4	1.8	1	2.7	2	2.4	3	2.5
10 Other	0	–	3	3.4	3	1.3	7	18.9	5	6.1	12	10.1
11 Multi-sector	0	–	0	–	0	–	5	13.5	23	28	28	23.5
12 Total	138	100	88	100	226	100	37	100	82	100	119	100

See *Annex I* for further details of the breakdown by sectors
See *Annex II* for an analysis by country of participants, and *Annex III* for a list of Western and Eastern enterprises involved.
(from Gutman, Saunders, 1981, 347)

From this table it appears that projects for increasing energy capacity of third countries received a determining share of the total TIC's accounting for approximately 40 per cent in both periods. Of this total, 68 per cent went to projects for electric power generation, 24 per cent to oil refining and the rest to coal and gas production.

The second largest share involved intermediate goods industries representing nearly 30 per cent of TIC cases for both periods. Of which 40,3 per cent of the projects for basic chemical (mineral chemicals and fertilizers as well as organic chemicals). Iron and steel 17,9 per cent, building materials and glass 16,4 per cent, paper and cardboard 13,4 per cent, non-ferrous metallurgy 10,4 per cent, foundry and metal work and plastics 1,5 per cent.

The third share comprised consumer goods industries representing nearly 15 per cent of TIC cases for the whole period. 54,5 per cent of the projects went to agricultural and food industries while 36,4 per cent went to textiles and clothing. Practically no projects were established for para-chemicals and pharmaceutical industries or for the leather-footwear-furniture group.

The next share was taken by equipment goods industries accounting for only 5,3 per cent of TIC cases with 66,6 per cent for land transport equipment, 16,7 for mechanical equipment, and 16,7 per cent for electrical and/or electronic equipment.

Mining, building and public works, transportation, commerce, service and telecommunications and agriculture together accounted for less than 10 per cent of the projects.

The sectoral Protocol Agreements seem to differ from completed projects with energy taking a considerably smaller share 10,1 per cent against 40,3 per cent. Intermediate goods industries also take a relatively smaller share: 20,2 per cent as compared with 29,6 per cent, while equipment goods industries account for a higher share of projected ventures 12,6 per cent as against 5,3 per cent.

It is difficult to gauge whether these variations in the protocol agreements from those of completed projects indicate an evolution of TIC pratice. Even if the signs are encouraging the statistics of the protocol agreements should be looked at carefully since such agreements have only an indicative value. Moreover, changes of production emphasis may not necessarily be imputed to TIC as such.

Does The Third Country Benefit?

Patrick Gutman who has studied the phenomenon of tripartite industrial cooperation is sceptical as to how far TIC in Third World countries favors a more inward-looking strategy with intersectoral links which is an indispensable condition for development in the true meaning of the term. Without intersectoral integration, the productive capacities, in the mechanical sense, might be raised without though changing the developmental focus of these economies. In his opinion, the impetus behind TIC is not a development concern for third countries, but the immediate interest of the industrial East and West:

> "It seems necessary to distinquish between the merits of TIC as a particularly appropriate means of international industrial marketing for the Eastern and Western partners and its real value for the development of third countries. In this respect, current studies of TIC generally tend to treat it as an autonomous phenomenon, arising solely from decisions of third countries as a sequel to their invitations for international bidding. It should, on the contrary, be borne in mind that TIC is at the same time a manifestation of the dynamics of the systems -- both East and West -- and consequently one factor in the interplay of their competition and perpetuation". (in Saunders 1983, 349)

In other words, TIC's primary function derives from the accumulation needs of the core nations within the world economy. In the transactions themselves, the Eastern partner has, as mentioned, at times undermined the participation of the third country through financial dumping in order to get a greater share of the project. Furthermore, the idea that it is an advantage to have contacts with representatives of both East and West, trying to benefit from each while insuring against the inherent risk of the exclusive domination by one of them, may be a misconception. In a document put out by UNCTAD -- which had been favorably inclined towards tripartite industrial cooperation -- some doubts were raised as to the transfer of benefits to the third country:

> "... (Tripartite arrangements) may reduce the options available to the buyer of technology if they provide a vehicle for reaching prior or separate agreements on the terms to be offered to the buyer by socialist enterprises and developed market economy firms that would otherwise compete with one another. When such agreements of a tacit or explicit nature exist, there is nothing to guarantee that any potential be-

nefits that might arise from complementarities and division of labour between Eastern European and Western partners would necessarily be passed on to the developing country participant in the form of lower costs. Instead, the technology supplier may choose to exploit their dominant position within the tripartite arrangement to extract maximum returns ..." (19)

Theoretical Justification.

When it comes to a political-ideological conceptualization of tripartite cooperation, the Eastern and Western partners are placed in different positions. The capitalist partner needs no ideological explanation for collaboration with Eastern public enterprises in projects in the Third World other than the profit motive. For multinationals TIC represents an answer to the economic challenge of CMEA countries' economic intervention in the periphery -- especially in the "rich" oil producing areas. Besides, as a byproduct, cooperation with Eastern countries tends to neutralize the relative capacity of Third World countries for economic independence. (20) All in all, tripartite industrial cooperation from the Western viewpoint represents an adjustment to the needs of the international division of labor by developing it to a new stage, without altering its foundation.

In contrast, the question is much more delicate for the USSR and the other CMEA members. The activities of Soviet enterprises abroad do need some kind of ideological/political justification; something the Soviet Union has found rather difficult to supply. As early participants in TIC, Eastern European social scientists have been more eloquent in their acquiescense of a certain East-West-South division and specialization of labor which would not radically transform the position of the Third World. A Polish economist sees this as a longterm perspective:

"One might arrive at the hypothesis that in the long run the structure of exchanges will retain their complementary character: The West specialised in the delivery of technically advanced products such as technology, the East in products essential for heavy industry and in less elaborated consumer goods, and the South in other products." (21)

The disposition on the part of Eastern European countries to enthusiastically envisage a subordinated role in the world economy may be related to their efforts to decrease their dependence towards the domination of the CMEA by the USSR. Geopolitically there is a certain analogy to Western Europe's relationship to the United States as the dominant power of the capitalist world. Thus the earliest Western participants in industrial cooperation were European countries. From this angle, it seems that the two parts of the old continent have an objective interest in establishing closer links outside their traditional alliances. This is the gist of the argumentation of the Hungarian economist, Egon Kemenes, who implies that there is more to gain for Western Europe in tripartite cooperation with CMEA than in trilateralism (Europe-Japan- United States):

> "A cooperation uniting the innovative spirit of Western Europe with the massive productive capacity of the East, with the labor power and natural wealth of developing countries could prove fruitful. This would permit an expansion of the potential resources for growth of Western Europe by giving it a more important role than it could hope for in a cooperation limited to the United States and Japan." (Kemenes, 1978, 53 in Gutman & Romer, 1978, 610)

The degree of autonomy both parts of Europe could obtain with regard to their respective superpower-ally in this type of cooperation is, however, not immediately obvious. The USSR and the United States may have been reserved at first and as far as is known there haven't been examples of direct US-Soviet tripartite cooperation. (McMillan in Saunders, 1983, 368) But foreign subsidiaries of US multinationals <u>did</u> participate in this evolution. On the other hand a loosening of US-Western European ties, as favored by Eastern Europe, would neatly fit Soviet foreign objectives which aim at weakening the Western alliance at all levels.

Moreover after a period of apparent indecision towards the phenomenon during the decade 1965-1975, the Soviet Union began to display an increasing interest. Its share of cooperation protocols for third countries increased from 5,6 per cent of tripartite agreements for socialist countries in mid-1976 to 23,7 per cent in mid-1978. From the very beginning it is probable that the other members of the CMEA, through their participation in TIC attempted to diversify their sources of raw materials and getting access to markets in order to decrease their dependence on the COMECON and the USSR. It is not unlikely that the Soviet Union was carefully watching this evolution before adjusting to the new modality of involvement in the world system. Whether the Soviet Union encouraged Eastern Europe to enter into such arrangements or whether these countries took the initiative themselves is hard to say. But the increased interest on the part of Moscow for this type of intercourse since 1976 might indicate that the USSR did not want to be seen as an initiator of this practice, which by ideological standards can be considered to represent a departure from orthodoxy.

That such a concern is not completely absent from Soviet considerations can be gauged from the treatment of the phenomenon. Internally, discussion of tripartite industrial cooperation is almost totally absent from the media which regularly publish articles on other aspects of East-West relations as well as East-South ties. Analyses on Western exploitation of the Third World are equally available. This silence on TIC is hardly a coincidence in view of the long years of propaganda against the evil deeds in the Third World of Western multinationals (the main partners in TIC). Discussions of TIC might also strike a false note in ears accustomed to the continuous Soviet rejection of Third World attempts to place the CMEA countries on a par with the West in the North-South dialogue. (22)

While the reluctance to discuss tripartite industrial cooperation internally reveals a definite ideological malaise, this restraint is replaced by near-enthusiasm at international fora such as UNCTAD. Here East-West economic collaboration - as a result of detente - is depicted as a favorable development for the Third World because of its "trade-creative" effects. (Ivanov, 1975, 5)

The underlying assumption being that the East-West-South interests not only are non-antagonistic but are best served by the international division of labor. Until recently, this was a commonly held position among establishment economists and businessmen in the West. Its adoption by Soviet social scientists demonstrates a willingness on the part of the USSR to adapt to the requirements of the economic restructuring of the world which is presently taking place. The extent of this commitment was overtly expressed at the 1975-UNCTAD conference, where the Soviet delegation - under the leadership of the known economist, Ivan Ivanov - promoted the idea of TIC, offering his country's general assessment of this question:

> "In a broad sense, tripartite industrial co-operation represents a logical outcome of two major trends that have recently brought changes, inter alia, to the world economy, namely the growing interdependence of trade flows and an increasing degree of internationalization in production. These trends determine the partners involved in, and the content of, tripartite industrial co-operation arrangements, and further influence the international division of labour at the enterprise level. In particular, the internationalization of production has led to many bilateral industrial co-operation arrangements involving a large number of combinations among the developed market economy, developing and socialist countries, while trade interdependence has facilitated the incorporation of such arrangements into a tripartite network, especially taking into account that all these trade flows are by their nature endowed with a considerable degree of complementarity as regards trade creation with the rest of the world." (Ivanov, 1975,2) (emphasis added)

A Third World participant to this conference describes the way the Soviet promotion of Tripartite Industrial Cooperation was met by some of the foreign observers: "With abundant cynicism, some of us immediately christened these as TRIC projects". (Desai, 1983, 119) One reason for scepticism could be the close resemblance of Soviet recommandations of TIC to the "classical" arguments used by Western development theory in favor of foreign enterprises in the Third World. It is precisely by juxtaposing the Soviet position at this UNCTAD conference with the recent evolution of the international division of labor that the degree of self-serving adaptation by the USSR to the world economy can be grasped.

With regard to the supposed ability of foreign enterprise to increase the Third World's possibilities for production and trade, experience has shown that little comprehension is to be gained by singling out such specific activities, as their significance has to be gauged within the entire context of international relations. Too often in the past, "growth" has been translated into drains on the economic surplus of Third World countries. Oblivious of this experience, the same authoritative Soviet statement maintains that East-West cooperation through subcontracting, co-production, licensing and joint marketing provides "opportunities for the integration of the exports of developing countries that call for more intensive utilization of their resources, including skilled labor and even technologically sophisticated inputs ..." (Ivanov, ibid.) Concerning the financing of TIC operations, this form of cooperation allegedly leads to the increase of available funds for Third World countries. This not withstanding, the very same document presents a whole catalogue of sources from which more funds could be tapped to finance TIC. It appears from this list that the USSR expects to finance its own economic expansion (through TIC) by means of reinvestment of current profits (aided by favorable tax, depletion and depreciation allowances in the host country), local capital or loans and credits from international institutions, the issuing of stocks for private or public subscription, etc. In other words, very little capital is expected to be contributed directly by the Eastern and Western partners in TIC. (23) Furthermore, projects favored by TIC are usually both capital intensive as well as characterized by a high import content. Under these circumstances it seems to be a reasonable question to ask whether the residual value for third countries is sufficiently large to justify the diversion of local funds, labor and materials to these projects? As it is, a certain East-South competition for loans is already visible on international money markets.

These aspects as well as the structural implications mentioned above require access to more information in order to be correctly appreciated. But nothing so far seems to indicate that these new modalities of Soviet involvement in the world economy are basically different in their objectives and results than those of Western multinationals. (24) Of course the whole scenario is different today compared to the modes of operation of economic relations in previous periods.

Mutations in the World Economy.

As already implied, the international division of labor is a far from static type relationship but subject to constant change. (25) Decolonization and the formation of politically independent new states gave rise to new forms of relations within the capitalist world system. First in Latin America, later extended to other areas, Third World governments started a policy of more direct state interventionism to initiate domestic industrialization programs and to protect infant industries against foreign competition. One of the consequences of this course was that international concerns transferred certain forms of light and assembly industries to the Third World in order to circumvent tariff barriers and gain/ retain a foothold in these markets. This type of industrialization strategy, which became known as "importsubstitution", implied alleged foreign currency savings for the host countries. However, experience showed that, this attempt became rather expensive as inputs of imported machinery, spare parts, knowhow and capital were increased. In some instances, the domestically produced items ultimately proved to be more expensive than would have been the case through direct import. (26)

Starting in the late 1960's another type of industrial implantation took place in the Third World as a result of increased intercapitalist competition: In order to lower the costs of production, labor intensive and polluting industries were moved to countries characterized by low wages, few environmental regulations, tax holidays, etc. (27) This was the beginning of socalled exportorientated industrialization. As a parallel development, government intervention had become a much more widely accepted means of influence. Thus in an increasing number of cases pressures were exerted on foreign capital to combine with local (either private or state) capital to form "joint ventures". After a long period where foreign investments had been primarily concentrated in the extractive sectors, a gradual shift was taking place towards manufacture. (28) The nationalization policies adopted by several Third World countries since the late 1960's promoted this trend.

Historically seen, a very recent phenomenon, both types of industrialization have, during the seventies, acquired a certain dimension. A socalled "new" international division of labor has been in the making whereby production based on intermediate technology has been moving to Third World countries, whereas industrial core states keep their monopoly on the main levers of dynamic growth such as sophisticated technology, finance, marketing, etc. Some Western economists even go so far as to propose that labor-intensive and polluting industrial production be left to the Third World, whereas the West should concentrate on socalled "knowledge-intensive" industries: The iron and steel, automobile, textile and other traditional industries are presently in the process of being dwarfed by ascending new industries such as electronics, laser, optical fibre, biological engineering, new energy sources, space and marine technology. In this connection, socalled "information technology" is becoming indispensable to the infrastructure of modern industrial countries. And in the highly competitive climate of the capitalist world system, neglect to study and develop this new technology is becoming tantamount to relinquishing the right to be a modern industrial power. Hence the Soviet interest for import of Western technology! In the context of our present study this means not only an increased struggle among core nations for privileged positions in the global hierarchy, but the very mechanisms of domination and exploitation of the Third World are undergoing profound changes.

On another level, the internationalisation of capitalist production relations has entered a stage of increased internationalization of productive capital. As a result of Third World pressure, international competition, and MNC expansion, new forms of cooperation have emerged, such as co-production and specialization-agreements, sub-contracting, cooperation arrangements limited to particular inputs (marketing or technology, for instance), as well as the above mentioned joint ventures between foreign and local capital. In other terms, what Ivan Ivanov above called the "international division of labor at the enterprise level".

For the governments of third countries, joint ventures with the participation of local capital were perceived as advantageous because of the perspective of getting a share in ownership, technology, administration and not least marketing. To this should be added the training of local managerial staff, while the state gained a certain influence over basic areas of development.

These forms of cooperation, on the other hand were not incompatible with MNC-interests in the sense that these were now able to share risks with the state of the host country. Thus in a certain sense Soviet foreign aid may paradoxically have pioneered this new form of cooperation: When the USSR supplies a factory, it belongs to the local government without worries for the donor about losing capital investment through nationalisation or about control-limits on profit repatriation. Through compensation agreements they are guaranteed supplies of the finished products for sometimes considerable periods, while their control of technology, spare parts, etc., ensures their continued presence and influence.

Other concerns for MNC's in their restructuration of the international division of labor were access to relatively cheaper resources, the ability to overcome administrative red tape, etc. because of their direct cooperation with the public sector. (Cfr. Calcagno & Knakal, in Saunders, 1983, 124) How far this development of internationalization of productive capital has gone emerges from the fact that by 1977, 43 per cent of US imports from Third World countries were intra-company trade (about 49 pct. for raw materials, 17 pct. for semi-manufactures, and 37 pct. for manufactures).(ibid.). The many new types of protectionism in industrial core nations, obstructing the export of Third World manufactures to these markets, plus the fact that the MNC's are in control of the factors of production, marketing as well as access to markets, all combine in putting tremendous pressure on countries in the periphery to engage in types of cooperation with these giants.

To these factors must be added the fact that government involvement has not been the priviledge of Third World countries alone but has been on the increase in international economic relations in general. Government guarantees or financing of capital exports, government-to-government barter deals exchanging oil for arms and modern factories, etc. as well as regulations of trade are becoming more common. The mounting Third World debt problem has no doubt promoted this parallel increase in government involvement. Government-to-government agreements provide a more solid basis for transactions on an international scale. Mehrotra and Clawson who discuss these aspects of what one might call new types of convergence between East and West, find it plausible that Western interest may turn more to the form of capital export pioneered by the USSR. And they give as an example the recent growth in turnkey factories, in which MNC's build a factory and often run it under a management contract while ownership is in the hands of Third World nationals. (1983, 120-21) Another example is Japanese firms who in the 1980's have been going into extractive ventures in cooperation with Third World governments in order to secure access to needed raw materials. In these cases Japan provides credits in return for 10-year supply-contracts. Also infrastructure is built in return for raw materials. (29)

Tripartite Industrial Cooperation has to be understood against this entire background of increased international competition and integration on the production level. Moreover, as suggested by Patrick Gutman (1981, 839) TIC occupies a central position in the context of the two alternative strategies followed by East and

West in the Third World: One strategy, which is offensive, aims at conquering new markets and penetrate the sphere of influence of the opponent. The other strategy is defensive, attempting to secure the continuation of acquired advantages within an area characterized by a disturbing trend towards greater economic independence. TIC offers a solution precisely because it makes it possible to avoid a choice between the two strategies: Through TIC the two parties offer each other a mutual "political-moral" caution implicit in the mere existence of common projects. (ibid.)

The future perspective of TIC from the point of view of the CMEA is still unclear. Soviet spokesmen often stress the complementarity of East-West cooperation and keep silent about the equally present aspect of competition. But for the Eastern European partners of CMEA, this latter problem is already openly admitted. As more industrial activities are taken over by the Third World, notably the socalled New Industrializing Countries (NIC) the latter - through their export-orientation - become suppliers of intermediate goods and technology which parallel the typical export potentials of Eastern European CMEA countries, thus increasing competition among them in third countries. (30)

For the USSR the situation may be somewhat different, since its main potential lies within heavy industry, power plants, etc. Nevertheless, there have been instances of Third World countries like India, getting a construction contract in competition with the USSR for delivery of technology originally developed through Soviet cooperation! In other words, South-South cooperation, if or when it gains momentum, may threaten outlets for Eastern exports. This may explain the less than enthusiastic response of the Soviet-bloc to Third World slogans such as the call for "collective self-reliance".

Other, more technical problems also tend to impede the expansion of TIC. From the point of view of the Western partner TIC has experienced problems of heavy initial costs, training needs, as well as clashing organisational and technology cultures. Some observers go so far as to believe that the development of TIC has already peaked. (31) Nevertheless, the problems which fostered the scheme are probably more acute today than they ever were.

In order to keep in mind the true perspective of what has been taking place, however, it should be recalled that apart from the few very early precedents, the strategy of foreign investments on the part of the USSR is primarily a fact since the seventies. As such it constitutes a break with close to fifty years of Marxist "conventional" wisdom, since it implies the direct and indisputable participation of a "socialist" state in capitalist production relations. Whether or not TIC or other forms of Soviet (and CMEA) co-production, sub-contracting, direct investments or joint ventures in third countries will gain real momentum, it certainly is an indication of how deeply the Soviet leadership is committed to the present course of promoting Soviet integration into the international division of labor.

In this connection, the difficulties involved for Soviet social scientists to provide an official theoretical concept of their country's new role in the world economy may be ascribed to the entire question of internal legitimacy of the regime. To this may be added control and restraint of Eastern Europe's own flirtation with the capitalist world or the attempt to keep anti-imperialist credentials in the eyes of Third World allies. As long as economic ties with the capitalist world were mainly concentrated in the sphere of trade, the whole paraphernalia of quotations (from Marx, Lenin, etc.) could be harnessed to the task of justifying the development of "mutually beneficial" (32) relations. With the diversification of links to include co-production in foreign countries, foreign investments and joint ventures, a shift has taken place in the locus of external economic practice: from the realm of circulation, i.e. the world market, to that of production: To the world system as such.

Under these circumstances, any shortterm solution to the apparent dichotomy between theory and practice should hardly be expected. As a student of the Soviet attitude towards the world economy has put it:

> "What one can safely predict for the near future is that the Soviets will continue to straddle the dilemma inherent in the USSR's conflicting political stance and its economic needs by combining anti-imperialist sloganeering with a search for greater and more profitable participation in the world market." (Valkenier, 1979, 32-33)

Depending on the observer's own point of view, she adds, this may be seen as "a cautious probing for adaptation to a new situation or a cynically purposeful drive for domination". (ibid.) But in reality, these motivations need not to be mutually exclusive.

NOTES:

1) Unpublished paper, which, like the present, is part of a larger project dealing with Soviet-Third World relations.

2) According to Richard B. Day, "... Lenin equated state capitalism (and NEP) with integrationism". (Day, 1973,104) See also: Lenin, C.W. Vol.31 p.495,493,499 and Vol. 32 p.346.

3) Bettelheim (1974,428-450) argues that NEP was more than a "temporary retreat": It was a return to "realism" and an attempt to formulate a strategy for the formation and consolidation of a workers-peasant alliance. This strategic aim was lost in the application of NEP by Lenin's successors.

4) I.e. an internal logic hardly uninfluenced by the capitalist production relations which dominate the world system.

5) In later years also China has extended new types of relations with the world system, including the invitation to foreign firms to establish joint ventures, co-production, etc. in China. In Australia, China has established a joint venture for the extraction of raw materials destined to China. All this is a departure from previously expressed principles of foreign economic relations. In the words of China's then foreign trade minister: "Socialist China will never try to attract foreign capital or exploit domestic or foreign natural resources in conjunction with other countries, as does a certain superpower masquerading under the name of "socialist". She will never go in for joint management with foreign countries, still less grovel for foreign loans as does that superpower." (Li Chiang, 1974, 5) On the other hand, China still identifies herself with a Third World position and strives for national or collective "self-reliance" on a higher level, involving increased South-South Cooperation. China does not (yet?) subscribe to the concept of "interdependence", her stra-

tegy implies fundamental transformations of the international division of labor in favor of the Third World.

6) The controversial Soviet-West European gas pipeline is a case in point. Western credits and technology contributed to the Soviet gas production which in the future will permit Soviet foreign currency earnings.

7) Western firms have found minority holdings in joint vèntures in third countries to be an advantage. In this manner they could extend their control with deployment of less capital. The mere size of these firms, together with their monopoly on licenses, spare parts, know-how, etc. ensured effective control. Accommodating in this way to nationalist sentiments in the host country, they become less visible targets of public scorn, hiding behind the names of local firms and monopolies.

8) U.N. Department of Economic and Social Affairs: "Multinational Corporations in World Development", United Nations, New York 1973, p. 5.

9) The influence of Western multinationals is wellknown. This power was often a direct or indirect result of government policies in their "home" country: f.ex. the huge government contracts to key industries involved in the "military-industrial-complex", agribusiness, etc. Nevertheless, they do not enjoy the same degree of "identity" or coordination between government and firms as in the Soviet case. On the other hand, governments and multinationals have often worked hand in hand. The role played by the American ITT (International Telephone and Telgraph) in having the Allende government of Chile removed in 1973 through CIA covert operations bears witness to the influence these concerns can wield in certain cases.

10) Then-Senator, John F. Kennedy had an open eye for the possibilities: "We must arm ourselves with more flexible economic

tools. We must be willing to recognize growing divisions in the Communist camp, and be willing to encourage those divisions. My amendment to the Battle Act would permit the President to use our economic strength to promote peaceful change behind the Iron Curtain wherever this would help wean the so-called captive nations away from their Kremlin masters". (The New York Times, Oct., 2, 1960)

11) Under the post-Kruchshevian leadership, there was a departure from the former challenge to compete with the United States in the Third World economically. The new policies went in more pragmatic, self-serving directions.

12) Cfr. Goldman, 1972; also included among basic Soviet weaknesses mentioned in "Die Studie von Nowosibirsk", Osteuropa 1/84, A4.

13) In order to appreciate this three-pole collaboration (East-West-South) it may be helpful to distinguish it from other formulae such as "triangular commerce" or "trilateral cooperation" with which it could easily be confused. TIC is not directly related to "triangular commerce" which is practiced by East European countries, and not least the Soviet Union itself, in world trade. The latter is a form of switch-trade which involves two successive commercial operations carried out by the East with both the West and the South. The procedure is one of selling manufactured goods and equipment to Third World countries in exchange for raw materials, which are then re-exported to the West as payment for imports of high technology and equipment to the East. In contrast, TIC agreements, are the results of two separate West-South and East-South contracts limiting the responsibilities (in technical and financial terms) of each partners' contribution. This renders direct transfers of South-East compensation payments to the West by the Eastern partner more difficult. This doesn't mean that the East cannot use such procedures to pay for its ex-

changes with the West, but such cases are an indirect incidence and do not represent the main aspect as is the case of "triangular commerce" or switch trade. Nor is TIC related to Trilateral Cooperation which according to a definition of the Organization for Economic Cooperation and Development (OECD) implies North-South-South cooperation whereby Western nations provide technology and equipment, while "rich" countries of the South (OPEC) provide capital for ventures in poor Third World countries. Nor is TIC related to the unofficial triangular interaction of the industrial nations: United States, Japan and Europe. Although there have been appeals by the "Trilateral Commission" to the Soviet Union for collaboration in the Third World (Cfr. Hosoya et al. 1977) there is no direct participation by the USSR in this essentially non-governmental management forum where influential politicians, businessmen and scholars attempt to define common policy lines for core nations.

14) P. Gutman (in Saunders, 1983, 337-366) gives some examples: PROTINAS (Hungary 50 pct. FRG 50 pct.) established 1973 to deliver turnkey farm and agricultural equipment especially to Arab countries. POLIBUR Engineering Ltd. founded in 1975 by Polimex-Cekop (Poland) and Burmah Engineering of the Burmah Oil Co. Ltd. (GB) to export turnkey industrial plants for the production of chemicals, building material, paper and cellulose, refrigeration, agricultural and food products, etc; TECHNICON SPA established in Genoa in 1977 as a joint Soviet-Italian company for constructing steel and tinplate plants in third countries. It is believed to be the first joint venture set up by the USSR with a foreign firm. (Cfr. Moscow Narodny Bank Press Bulletin, 21/9/1977, p. 12)

15) Protocol Agreements are a kind of umbrella agreements for the implementation of future joint ventures, between Western firms and Eastern Foreign Trade Organizations for cooperation in third countries.

16) By associating, both East and West may gain access to Third World markets which for political or cultural reasons would otherwise be closed to them. Western firms in this manner have gained access to, for instance, Iraq, Syria, and Burma, while East Europeans have been able to penetrate Latin American markets. As an example, it was reported that Czechoslovakia wanted joint projects with Spanish firms in Latin America, because, according to a Czech official, "for political reasons they are in a better position than we are". (New York Times, 16.5.1979)

17) According to McMillan, "In bilateral meetings and in multilateral fora, Eastern representatives have consistently sought to promote joint projects in third countries". (In Saunders, 1983, 367)

18) "Since the multinational companies are partially discredited in the Third World, perhaps transideological companies with equal participation from East and West, with each side watching over the other might be able to take over." (Pisar, 1974)

19) UNCTAD 1975. (In Frank, 1980, 204)

20) In the sense of limiting their capacity to play on East-West competition. In a much larger sense Third World efforts at emancipation are hampered by the existence of the enormous economic power which these transnational combinations and the internationalization of production constitute. Not only directly, but indirectly because their very existence imposes a certain pattern of technological development and economic priorities which, all other things being equal, do not represent the longterm national interest of these countries. In any case the initiative is out of their control.

21) L. Zurawicki, Sprawy Miedzunarodnowe No. 5, 1978 (in Geze et Gutman, 1980).

22) For example at UNCTAD IV the East European bloc complained about the attempt to use the same norms when discussing East-South ties as those utilized in the debate on West-South relations. The Soviet Minister of Foreign Trade, Nikolav S. Patolichev put it this way: "... today we have every right to say that we witness not only two opposite socio-economic systems, but also essentially contrasting approaches to relations with the developing countries; it would be utterly mistaken not to distinquish one from the other." (Foreign Trade, 1976,6)

23) Actually, foreign firms tend to compete with national companies for local credits in the Third World! As a rule there is a minimal flow of capital to the host country from the foreign investors, while expatriated profits are often calculated on the basis of total investments, including local savings.

24) "Available evidence indicates that they (Soviet companies) follow familiar commercial norms and that their operations do not differ markedly from those of other foreign-owned firms". (McMillan, 1979, 645)

25) As a precondition for the core-peripheral relationship in the world hierarchy of states, the international division of labor is subject to constant dynamic change. As Immanual Wallerstein put it: "... at first, wheat was exchanged against textiles; later textiles against steel; today, steel against computers and wheat!" (Wallerstein, 1980, 172)

26) In the context of this paper it is not uninteresting to note that this type of result has also occured through the cooperation of the USSR in import substitution efforts of Third World countries. A known case of similar cost increase was the Soviet-built MiG-plant in India. The actual price of the Indian MiG-21 fighter jet was found to have ultimately become twice as high as would have been the price of the imported

prototype from the USSR. (Childs & Kidron, 1973)

27) In the urgency to improve their balance of payment, many Third World states entered into competition among each other to attract foreign investors. The establishment of free zones was part of this strategy. There is an analogy to Eastern Europe, where Western investors have been attracted by the less expensive, but skilled working class, guaranties against social disorder, etc. as well as guaranteed benevolent cooperation with the government.

28) Traditionally, activities had been concentrated in trade (export-import) as well as in extractive investments, closely linked to the productive system of the "mother country" (core nation). This resulted in an enclave-economy with few linkages and little value added. In the 1970's the share of extractive industries in foreign investment has declined. By 1983, direct private investments are concentrated mainly in manufacturing within the most dynamic sectors (chemicals, rubber, steel, mechanical engineering). US investments highlight this development. Their placement in mining, smelting and petrol went from 42,4 pct. in 1967, to 35,4 pct. in 1971, and 17,9 pct. in 1978. (Calcagno & Knakal in Saunders, 1983)

29) Robert Read in International Herald Tribune 25.4.84.

30) Mette Skak in a recently published paper draws attention to this trend. ("East-South in the new International Divison of Labor" April 1984, Sydjysk Universitetscenter, Esbjerg).

31) Cfr. Mette Skak, ibid.

32) The term "mutually beneficial" ignores the not unimportant question of distribution of "benefits". In fact, there is an element of neo-Richardianism in the Soviet/Eastern European proposition that irrespective of the element of "unequal ex-

change" all participants in international transactions benefit. (Emmanuel 1969, 138 ff). The theory of "comparative costs" adopted by many Eastern theoreticians disguises the cumulative effects on the Third World of the very system of international division of labor of which they themselves want to become an integrated part.

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